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FACTSHEET: BORROWER EXPERIENCES WITH STUDENT DEBT STRESS

Bureau Launches Public Inquiry Into Student Loan Servicing Practices

STUDENT LOAN SERVICING BY THE NUMBERS

- **Over $1.2 trillion:** The total volume of outstanding student loan debt
- **More than 40 million:** The number of borrowers with student loan debt
- **$29,384:** The average balance of a borrower graduating from college with a bachelor's degree
- **10 million:** The number of federal loan borrowers who had a servicing transfer between 2010 and 2013
- **$110 billion:** The total volume of student loan debt in default
- **8 million:** The number of student loan borrowers in default
- **$129 billion:** The total amount of federal student loan debt in forbearance
- **4 million:** The number of federal student loan borrowers in forbearance

OVERVIEW

Student loan servicers are responsible for collecting payments from borrowers on behalf of loan holders. Student loan borrowers rely on servicers to process payments accurately, to provide statements and other billing information, and to answer inquiries about their accounts. Duties may also include informing borrowers about loan repayment options and facilitating enrollment in alternative repayment plans and other benefits. A servicer is often different than the lender, and a borrower typically has no control or choice over which company services a loan.

When servicers provide quality service to their customers, borrowers can more easily make their payments, build their credit and even get ahead on their loans. But when payments get lost, calls get disconnected, and companies have systems that maximize fees, borrowers suffer. Breakdowns in student loan servicing can be a huge impediment to staying current on student loans. For those borrowers who are struggling to make ends meet, high quality student loan servicing can be the difference between getting by and going broke.

The Consumer Financial Protection Bureau (CFPB) has heard from borrowers through its complaint handling, its Tell Your Story function, and from staff travelling across the country. The CFPB has observed that many borrowers are experiencing significant student debt stress. The CFPB is launching a public inquiry today examining specific practices that could potentially create borrower harm or stress as consumers repay their loans.

PAYMENT PROCESSING PROBLEMS

- **Payment processing delays can increase borrower costs:** The CFPB has heard from borrowers that servicers may take several days to process payments and charge additional interest on the outstanding principal during that processing time.

- **Prepayments may be applied in ways that make loans more expensive:** Some consumers attempt to prepay their loans in order to reduce the amount of interest owed over the life of the loan. But the CFPB heard from consumers that servicers may apply payments in excess of the amount due across all loans in a borrower's account, not directly to the highest-interest rate loan that many borrowers' would prefer to pay off first. This means the consumer ends up paying more in interest over the long-term.

- **Underpayments may be applied in ways that rack up late fees:** When borrowers have multiple loans with one servicer and are unable to pay their bill in full, borrowers have told the CFPB that many servicers instruct them to make whatever payment they can afford. Servicers may divide up the partial payment and apply it evenly across all of the loans in their account so that for each loan the amount paid is below the minimum payment. This can mean borrowers are paying late fees on more loans.

REPAYMENT BENEFIT BREAKDOWNS

- **Hurdles may make it difficult for borrowers to receive promised benefits:** It is common for lenders to offer various incentives to borrowers in marketing materials prior to taking out the loan. These incentives, for example, might include interest rate or principal reductions if a consumer enrolls in an auto-debit program. But the CFPB has heard from borrowers that some servicers may put hurdles between borrowers and these incentives, making it hard for consumers to take advantage of them. For example, borrowers assume that when they enroll in their servicers' auto-debit program, they will immediately receive the interest rate reduction. Borrowers have reported that this benefit has not been applied automatically and that the interest rate on their loan is only reduced after they contact their servicer.

CO-SIGNER CHAOS

- **Full-loan balances demanded upon the death of a co-signer:** Many consumers assume that the death of a co-signer, often a parent or grandparent, will result in the release of that person's obligation to repay. But consumers reported that many private student lenders immediately demand the full loan balance upon death of the co-signer.

- **Loans in good standing can be placed into "auto-default" when a co-signer declares bankruptcy:** Consumers reported that many private student loan lenders place a loan in default if their co-signer files for bankruptcy. Even if the loan was in good standing prior to and while the co-signer is in bankruptcy, servicers choose to place borrowers' loans in default anyway. They demand borrowers immediately repay their entire debt in full, furnishing negative information to credit bureaus, and referring their account to a debt collector. Auto-defaults may be triggered when data from probate and other court record scans are matched with a financial institution's customer database, without regard to whether the borrower is in good standing.

SERVICING TRANSFER SNAGS

- **Borrowers may experience problems when servicers change:** Servicing interruptions may follow a change in servicer—a process generally resulting from a decision made by the owner of the loan and over which a borrower has no control. Many consumers may be unaware that their loans had been transferred to a new servicer until they encounter a problem. Following a change in servicer, consumers say they sometimes experience interruptions when receiving billing statements, notices, or other routine communication which result in them falling behind on their payments.

- **Borrowers may be hit with late fees during transfers:** The CFPB has heard from borrowers that student loan servicers may charge late fees when payments are mailed to their old servicers. In some cases, payments were not processed correctly post-transfer if the consumer mailed a check to their new servicer containing account information from the old servicer.

SERVICING SETBACKS FOR SERVICEMEMBERS

- **Benefits sometimes blocked for members of the military:** The CFPB has heard complaints that servicers may be creating barriers for servicemembers seeking to access the protections granted to them under federal rules, including the Servicemembers Civil Relief Act. These hurdles include imposing extra paperwork requirements and withholding critical information about benefits.

ROADBLOCKS FOR DISTRESSED BORROWERS

- **Servicers may not know where to send distressed borrowers for help:** The CFPB has heard from borrowers that student loan servicers may transfer borrowers to multiple departments, and, in some cases, the customer service agents are not responsive or empowered to provide a clear answer. Servicing personnel may be unable or unwilling to correct a mistake in how a payment was applied to the borrower’s account. Other borrowers note receiving conflicting instructions from different employees of the same servicer.

- **Servicing personnel may not be trained to provide help:** Consumers report that servicing personnel may not be adequately trained to provide assistance or may be unaware of resources available to borrowers in distress. This problem may be exacerbated at companies that service many different programs for third-party lenders.

REQUEST FOR INFORMATION

The Bureau has several responsibilities related to student lending. It currently supervises student loan servicing at the largest banks and nonbank student loan servicers that handle more than one million borrower accounts, regardless of whether they service federal or private loans. This represents most of the activity in the student loan servicing market. The Bureau’s supervision authority allows it to oversee company activities to ensure they are complying with federal consumer financial protection laws.

The Notice and Request for Information calls on student loan borrowers, financial institutions, colleges and universities, and other stakeholders to provide input on what policymakers and market participants should consider when evaluating ways to improve the quality of student loan servicing. The Bureau will be accepting input until July 13, 2015.

On March 10, 2015, President Obama signed a Presidential Memorandum directing certain executive agencies to undertake a number of steps to improve student loan borrowers’ experience in repayment, with a particular focus on enhancing student loan servicing. The memorandum requires the Secretary of Education, in consultation with the Secretary of the Treasury and the Bureau Director, to issue a report to the President after assessing the potential applicability of consumer protections in the mortgage and credit card markets to student loans. The findings from the public inquiry launched today will inform this report.

The Request for Information on student loan servicing can be found at:
http://files.consumerfinance.gov/f/201505_cfpb-rfi-student-loan-servicing.pdf

More information for student loan borrowers is available at: consumerfinance.gov/students

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The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit consumerfinance.gov.